

## **FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA**

Financial Statements  
for the year ended  
31 December 2010  
and Directors' Report  
together with the Auditors' Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.*

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*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Fund (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Governing Committee of Fondo  
de Reestructuración Ordenada Bancaria:

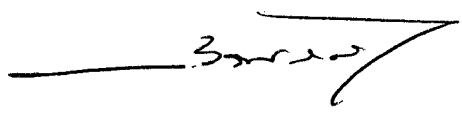
We have audited the financial statements of Fondo de Reestructuración Ordenada Bancaria ("the Fund"), which comprise the balance sheet at 31 December 2010 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended. The Director General of the Fund is responsible for the preparation of the Fund's financial statements in accordance with the regulatory financial reporting framework applicable to the Fund (identified in Notes 1 and 2 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying financial statements for 2010 present fairly, in all material respects, the equity and financial position of Fondo de Reestructuración Ordenada Bancaria at 31 December 2010, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Fund and, in particular, with the accounting principles and rules contained therein.

The accompanying directors' report for 2010 contains the explanations which the directors consider appropriate about the Fund's situation, the evolution of its activities and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2010. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Fund's accounting records.



Deloitte, S.L.  
Registered in ROAC under No S0692



Carmen Barrasa Ruiz  
17 May 2011

## **FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA**

Financial Statements  
for the year ended  
31 December 2010  
and Directors' Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.*

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Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

# FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

## BALANCE SHEETS AT 31 DECEMBER 2010 AND 2009 (Notes 1 to 4)

(Thousands of Euros)

ASSETS		Notes	2010	2009 (*)	EQUITY AND LIABILITIES		Notes	2010	2009 (*)
<b>NON-CURRENT ASSETS</b>					<b>EQUITY</b>				
Non-current financial assets		6	8,706,435	-	OWN FUNDS		8	8,696,236	9,010,327
Debt instruments			8,697,000	-	Equity fund			9,010,327	9,000,000
Other financial assets			9,435	-	Profit (Loss) for the period			(314,091)	10,327
<b>Total non-current assets</b>			<b>8,706,435</b>	<b>-</b>	<b>NON-CURRENT LIABILITIES</b>			<b>8,696,236</b>	<b>9,010,327</b>
					Non-current payables		7	2,993,478	2,991,953
					Debt instruments and other marketable securities			2,993,478	2,991,953
					Non-current provisions		12	266,240	-
					<b>CURRENT LIABILITIES</b>			<b>3,259,718</b>	<b>2,991,953</b>
<b>CURRENT ASSETS</b>					<b>Current payables</b>		7	14,735	10,219
Accounts receivable		6	208	-	Debt instruments and other marketable securities			10,219	10,219
Current financial assets		6	64,550	-	Current bank borrowings			4,516	-
Debt instruments			64,550	-	Current payables to Group companies and associates		11	87	82
Current prepayments and accrued income		6	25	-	Current provisions		12	91,532	-
Cash and cash equivalents		5	3,291,691	12,012,928	Trade and other payables			601	347
Cash			3,291,691	12,012,928	Sundry accounts payable		11	444	295
					Other accounts payable to public authorities		10	157	52
<b>Total current assets</b>			<b>3,356,474</b>	<b>12,012,928</b>	<b>TOTAL EQUITY AND LIABILITIES</b>			<b>106,955</b>	<b>10,648</b>
<b>TOTAL ASSETS</b>			<b>12,062,909</b>	<b>12,012,928</b>				<b>12,062,909</b>	<b>12,012,928</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 17 are an integral part of the balance sheet at 31 December 2010.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

## FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

### INCOME STATEMENTS FOR THE YEARS ENDED

31 DECEMBER 2010 AND 2009 (Notes 1 to 4)

(Thousands of Euros)

	Notes	Income / (Expense)	
		2010	2009 (*)
<b>CONTINUING OPERATIONS</b>			
<b>Finance income</b>		<b>145,227</b>	<b>21,459</b>
Preference share interest	6	64,550	-
Bank interest	5	80,677	20,574
Other income		-	885
<b>Finance costs</b>	7	<b>(98,632)</b>	<b>(10,394)</b>
Interest and commissions		(98,632)	(10,394)
<b>Other income</b>		<b>206</b>	<b>-</b>
Asset protection scheme commissions		206	-
<b>Period provisions</b>	12	<b>(357,772)</b>	<b>-</b>
Asset protection scheme		(357,772)	-
<b>Staff costs</b>	13	<b>(656)</b>	<b>(237)</b>
Wages, salaries and similar expenses		(563)	(206)
Social security costs		(93)	(31)
<b>Other operating expenses</b>	13	<b>(2,464)</b>	<b>(501)</b>
Outside services		(2,322)	(501)
Other current operating expenses		(142)	-
<b>PROFIT (LOSS) FOR THE YEAR</b>		<b>(314,091)</b>	<b>10,327</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 17 are an integral part of the income statement for 2010.

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## FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

### STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (Notes 1 to 4)

#### A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(Thousands of Euros)

	Notes	Income / (Expense)	
		2010	2009 (*)
<b>PROFIT (LOSS) PER INCOME STATEMENT (I)</b>		<b>(314,091)</b>	<b>10,327</b>
Income and expense recognised directly in equity			
- Arising from revaluation of financial instruments		-	284
Available-for-sale financial assets		-	284
Other income (expense)		-	-
- Arising from cash flow hedges		-	-
- Grants, donations or gifts and legacies received		-	-
- Arising from actuarial gains and losses and other adjustments		-	-
- Tax effect		-	-
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)</b>		<b>-</b>	<b>284</b>
Transfers to income statement			
- Arising from revaluation of financial instruments		-	(284)
Available-for-sale financial assets		-	(284)
Other income (expense)		-	-
- Arising from cash flow hedges		-	-
- Grants, donations or gifts and legacies received		-	-
- Tax effect		-	-
<b>TOTAL TRANSFERS TO INCOME STATEMENT (III)</b>		<b>-</b>	<b>(284)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)</b>		<b>(314,091)</b>	<b>10,327</b>

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 17 are an integral part of the statement of changes in equity for 2010.



Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

## FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

### STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (\*) (Notes 1 to 4)

#### B) STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (\*) (Notes 1 to 4)

(Thousands of Euros)

	Equity Fund	Prior years' profit (losses)	Profit (Loss) for the period	Other equity instruments	Valuation adjustments	TOTAL
Balance at 1 January 2009 (*)	-	-	-	-	-	-
Adjustments due to changes in accounting policies 2009	-	-	-	-	-	-
Adjustments due to errors 2009	-	-	-	-	-	-
<b>ADJUSTED BALANCE AT BEGINNING OF 2009</b>	-	-	-	-	-	-
Total recognised income and expense	9,000,000	-	10,327	-	-	10,327
Transactions with Fund sponsors	9,000,000	-	-	-	-	9,000,000
- Transfer to the fund	-	-	-	-	-	-
- Return of amounts transferred to the fund	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-
- Other transactions	-	-	-	-	-	-
<b>Other changes in equity</b>	-	-	-	-	-	-
Balance at 31 December 2009	9,000,000	-	10,327	-	-	9,010,327
Adjustments due to changes in accounting policies 2010	-	-	-	-	-	-
Adjustments due to errors 2010	-	-	-	-	-	-
<b>ADJUSTED BALANCE AT BEGINNING OF 2010</b>	9,000,000	10,327	-	-	-	9,010,327
Total recognised income and expense	-	-	(314,091)	-	-	(314,091)
Transactions with Fund sponsors	10,327	-	-	-	-	10,327
- Allocation of prior year's profit	10,327	-	-	-	-	10,327
- Return of amounts transferred to the fund	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-
- Other transactions	-	-	-	-	-	-
<b>Other changes in equity</b>	-	(10,327)	-	-	-	(10,327)
Balance at 31 December 2010	9,010,327	-	(314,091)	-	-	8,696,236

(\*) Presented for comparison purposes only

The accompanying Notes 1 to 17 are an integral part of the statement of changes in equity for 2010

## FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (\*) (Notes 1 to 4) (Thousands of Euros)

	Notes	Proceeds / (Payments)	
		2010	2009 (*)
<b>CASH FLOWS FROM OPERATING ACTIVITIES (I)</b>		(24,237)	20,866
Profit (Loss) for the year before tax		(314,091)	10,327
Adjustments to profit (loss):		311,152	(10,636)
- Depreciation and amortisation		-	-
- Impairment losses		-	-
- Changes in provisions		357,772	-
- Allocation of grants to profit or loss		-	-
- Gains (losses) on derecognition and disposal of non-current assets		-	-
- Gains (losses) on derecognition and disposal of financial instruments		-	(284)
- Finance income	5 y 6	(145,227)	(21,175)
- Finance costs	7	98,632	10,394
- Exchange differences		-	-
- Change in the fair value of financial instruments		-	-
- Other income and expense		(25)	429
<b>Changes in working capital</b>		(4,868)	-
- Inventories		-	-
- Trade and other receivables	6	(208)	-
- Other current assets		-	-
- Trade and other payables		4,775	-
- Other current liabilities		-	-
- Other non-current assets and liabilities	6	(9,435)	-
<b>Other cash flows from operating activities</b>		(16,430)	21,175
- Interest paid		(97,107)	-
- Dividends received		-	-
- Interest received	5	80,677	21,175
- Income tax recovered (paid)		-	-
- Other amounts received (paid)		-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES (II)</b>		(8,697,000)	750,138
<b>Payments relating to investments</b>		(8,697,000)	-
- Group companies and associates		-	-
- Intangible assets		-	-
- Property, plant and equipment		-	-
- Investment property		-	-
- Other financial assets	6	(8,697,000)	-
- Non-current assets held for sale		-	-
- Other assets		-	-
<b>Proceeds from disposals</b>		-	750,138
- Group companies and associates		-	-
- Intangible assets		-	-
- Property, plant and equipment		-	-
- Investment property		-	-
- Other financial assets		-	750,138
- Non-current assets held for sale		-	-
- Other assets		-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES (III)</b>		-	11,241,924
<b>Proceeds and payments relating to equity instruments</b>		-	8,250,146
- Issuance of equity instruments		-	8,250,146
- Redemption of equity instruments		-	-
- Acquisition of own equity instruments		-	-
- Disposal of own equity instruments		-	-
- Grants, donations or gifts and legacies received		-	-
<b>Proceeds and payments relating to equity liability instruments</b>		-	2,991,778
- Issuance of debt instruments and other marketable securities	7	-	2,991,778
- Issuance of bank debt		-	-
- Issuance of debt to group companies and associates		-	-
- Issuance of other debt		-	-
- Redemption of debt instruments and other marketable securities		-	-
- Redemption of bank debt		-	-
- Redemption of debt to group companies and associates		-	-
- Redemption of other debt		-	-
<b>Dividends and returns on other equity instruments</b>		-	-
- Dividends		-	-
- Returns on other equity instruments		-	-
<b>EFFECT OF CHANGES IN EXCHANGE RATES (IV)</b>		-	-
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)</b>		(8,721,237)	12,012,928
Cash and cash equivalents at beginning of period		12,012,928	-
Cash and cash equivalents at end of period		3,291,691	12,012,928

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 17 are an integral part of the statement of cash flows for 2010.



Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

## FONDO DE REESTRUCTURACIÓN ORDENADA BANCARIA

### Notes to the financial statements for the year ended 31 December 2010

#### 1. Activity

The Fondo de Reestructuración Ordenada Bancaria (the Fund for Orderly Bank Restructuring, hereinafter "the FROB") was incorporated on 14 July 2009 in accordance with the provisions of Royal Decree-Law 9/2009, of 26 June, on bank restructuring and strengthening of the capital of credit institutions, amended by Royal Decree-Law 6/2010, of 13 April, which contains a series of measures for encouraging economic recovery and employment, and by Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks (hereinafter, any references to Royal Decree-Law 9/2009 should be understood to be made to its wording at 31 December 2010, including the aforementioned related amendments)<sup>1</sup>.

The FROB, whose purpose is to manage the restructuring processes of credit institutions and to assist in strengthening their capital in the terms established in Royal Decree-Law 9/2009, has a separate legal personality and full public and private capacity to fulfil its purpose.

The activities that the FROB may carry on in order to fulfil its purpose are as follows:

- *Adoption of measures to tackle weaknesses that might affect the viability of credit institutions:* guided by the principle of making the most efficient use of public resources, the FROB may provide funding, at market rates, to the Deposit Guarantee Funds of Banking Establishments, Savings Banks or Credit Cooperatives in order to enable the latter to fulfil financial support functions for the credit institutions' action plans to which Article 6 of Royal Decree-Law 9/2009 refers.
- *Restructuring processes with FROB intervention:* in these processes, the FROB will perform the duties of provisional administrator, designated by the Bank of Spain, of entities that meet the conditions established in Article 7 of Royal Decree-Law 9/2009.

In addition, in these processes, the FROB will perform the activities envisaged in said Article 7 in the terms set forth therein which, inter alia, include the preparation of a detailed report on the equity position and the viability of the entities administered by the FROB, of a restructuring plan for these entities to be submitted for approval by the Bank of Spain, and of management and financial support measures to enhance their organisation and their procedural and internal control systems, in all cases in accordance with, as above, the principle of making the most efficient use of public resources.

- *Strengthening of the capital of credit institutions<sup>2</sup>:* the FROB may acquire preference shares convertible into shares, voting equity units or contributions to the share capital of credit institutions resident in Spain which, provided that they do not meet the conditions established in Article 6 of Royal Decree-Law 9/2009, need to strengthen their capital with the sole aim of carrying out integration processes among themselves and request to do so. Acquisitions and disposals would be performed, in all cases, in accordance with the conditions and procedures set forth in Article 9 of Royal Decree-Law 9/2009.
- *Recapitalisation of separate entities<sup>3</sup>:* In exceptional circumstances, the FROB may acquire securities issued by separate entities which, provided that they do not meet the conditions established in Article 6,

<sup>1</sup> Subsequent to the reporting period, Royal Decree-Law 2/2011, of 18 February, for strengthening the financial system, introduced further amendments to Royal Decree-Law 9/2009, which affect certain aspects of the FROB's organisation and attributed functions.

<sup>2</sup> Amended by Royal Decree-Law 2/2011 and, accordingly, following its entry into force and as a general rule, support will be provided through the temporary acquisition of ordinary shares at market rates. The acquisition price will be set on the basis of the entity's economic value and the shares may be held for a maximum of five years. The subscription of these securities is conditional on the preparation by the entity of a recapitalisation plan that must be approved by the Bank of Spain. This measure implies that the FROB will enter said credit institutions' share capital and boards of directors.

<sup>3</sup> Eliminated by Royal Decree-Law 2/2011

require, in the opinion of the Bank of Spain, strengthening of their capital. These acquisitions will be governed by Article 9 of Royal Decree-Law 9/2009 and will be understood to be conditional on the preparation of a recapitalisation plan.

In order to achieve its aims, the FROB may raise financing on the securities markets by issuing fixed-income securities, receiving loans, requesting credit and performing any other borrowing transaction. In this regard, the FROB's borrowed funds may not exceed, regardless of the type of instrument, three times the endowment at any given time. The Ministry of Economy and Finance may authorise this limit to be surpassed provided that, under no circumstances, the FROB's borrowed funds exceed ten times the endowment.

The legal regime under which the FROB carries on its activities is contained in Royal Decree-Law 9/2009 and any related implementing legislation that may be passed. The legal regime governing the Credit Institutions' Deposit Guarantee Funds is also applicable in a secondary manner.

The transactions performed by the FROB are governed by Royal Decree-Law 9/2009 and any related implementing legislation that may be passed. The regulations on private legal transactions are also applicable in a secondary manner and, accordingly, the FROB must inform, where appropriate, the European Commission or the Spanish National Competition Commission as required by the legislation governing competition and State aid.

The FROB is not subject to the following legislation which, therefore, is not applicable to it:

- The provisions of Law 6/1997, of 14 April, on the organisation and working of the central government.
- The rules governing the budgetary, economic and financial, accounting, contract and control regulations of public bodies reporting or connected to the central government, except with regard to the audits of the Spanish National Audit Office, pursuant to Organic Law 2/1982, of 12 May, of the Spanish National Audit Office.
- The provisions of Law 33/2003, of 3 November, on public administration holdings.

The FROB has a mixed endowment financed by the State Budget and by contributions from the Deposit Guarantee Funds of Banking Establishments, Savings Banks and Credit Cooperatives and is governed and administered by a Governing Committee comprising, at 31 December 2010, eight members<sup>4</sup> appointed by the Ministry of Economy and Finance, of whom five are proposed by the Bank of Spain, one represents the Banking Establishments' Deposit Guarantee Fund, one represents the Savings Banks' Deposit Guarantee Fund and another represents the Credit Cooperatives' Deposit Guarantee Fund. The meetings of the Governing Committee are also attended by a representative of the General Comptroller Department of the State Administration in an advisory capacity.

The dissolution and liquidation of the FROB will require the corresponding ruling having the status of law, which will determine the rules to be followed in the distribution of the retained assets among its sponsors.

The registered office of the FROB is at calle José Ortega y Gasset 22, Madrid.

The FROB has commissioned the Management Company of the Credit Institutions' Deposit Guarantee Fund to provide various services required in order to carry on its activity.

## **2. Basis of presentation of the financial statements and other information**

### **2.1 Fair presentation**

The financial statements of the FROB, which were obtained from its accounting records, are presented in accordance with Royal Decree 1514/2007, approving the Spanish National Chart of Accounts, and with the amendments introduced by Royal Decree 1159/2010 and, accordingly, they present fairly the equity and the financial

<sup>4</sup> Amended by Royal Decree-Law 2/2011, increasing its number to nine members appointed by the Ministry of Economy and Finance, of whom two represent the Ministry of Economy and Finance, four are proposed by the Bank of Spain, one representing the Banking Establishments' Deposit Guarantee Fund, one represents the Savings Banks' Deposit Guarantee Fund and another represents the Credit Cooperatives' Deposit Guarantee Fund.

position of the FROB at 31 December 2010, and its results, the changes in its equity and its cash flows in the year then ended, in accordance with the applicable legislative framework.

The financial statements of the FROB for 2009 were approved by the Governing Committee on 25 March 2010. The financial statements for 2010, which were authorised for issue by the Director General of the FROB on 10 May 2011, will be submitted for approval by the Governing Committee, and it is considered that they will be approved without any changes.

## **2.2 Accounting policies applied**

The financial statements of the FROB were prepared taking into account all the mandatory accounting principles and rules with a material effect on the financial statements (see Note 4). All obligatory accounting principles with a significant effect on the financial statements were applied. No non-obligatory accounting principles were applied in the preparation of the financial statements.


## **2.3 Key issues in relation to the measurement and estimation of uncertainty**

In preparing these financial statements, estimates were made to measure certain of the items recognised therein. These estimates refer primarily to the assessment of possible impairment losses on certain financial assets (see Notes 4.3 and 6.2), the measurement of possible losses associated with the guarantees granted by the FROB (see Note 12.1) and the calculation of the fair value of its financial instruments.

Although these estimates were made on the basis of the best information available at 2010 year-end and at the date on which these financial statements were authorised for issue, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years.

## **2.4 Comparative information**

The information relating to 2009 included in these notes to the financial statements is presented with that relating to 2010 for comparison purposes only and, accordingly, it does not constitute the statutory financial statements of the FROB for 2009.



Taking into consideration the uniqueness of its nature and purpose, the FROB adapted the format of the income statement included in the Spanish National Chart of Accounts in order to provide a fair presentation of the results of its activity in a clearer manner. For comparison purposes, the income statement for 2009 was adjusted consistently. The aforementioned adaptation did not have an effect on the FROB's equity or results in the years in question.

As indicated above, Royal Decree 1159/2010, of 17 September, which was published in the Official State Gazette on 24 September 2010, introduced certain amendments to the Spanish National Chart of Accounts approved by Royal Decree 1514/2007.

Pursuant to the established rules governing the transition, these amendments were applied prospectively from 1 January 2010 but they did not have an effect on these financial statements for 2010. Accordingly, pursuant to these rules, the FROB opted to present the comparative information for 2009 without adapting it to the new policies and, as a result, these financial statements are considered to be initial financial statements for the purposes of applying the principles of consistency and comparability.

## **2.5 Environmental impact**

In view of the business activities carried on by the FROB, it does not have a significant impact on the environment. Therefore, the FROB's financial statements for 2010 do not contain any disclosures on environmental issues.

## **2.6 Disclosures relating to late payment to suppliers. Additional provision three. "Duty of disclosure" of Law 15/2010, of 5 July**

Pursuant to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, which was implemented by the Resolution dated 29 December 2010 of the Spanish Accounting and Audit Institute, on disclosures to be included in the notes to the financial statements with regard to late payment to suppliers in commercial transactions, it is hereby stated that there were no balances

payable to commercial suppliers that exceeded the statutory payment period.

### **3. Distribution of profit**

Pursuant to Royal Decree-Law 9/2009, revenue of any kind generated by the FROB's assets is included in its endowment. Similarly, any expenses generated by management of the assets are met by making a charge to its endowment. Accordingly, the loss generated in 2010 amounting to EUR 314,091 thousand (see Note 8) will be offset in full by the "Equity Fund" under equity in the balance sheet.

### **4. Accounting policies and measurement bases**

The principal accounting policies and measurement bases used by the FROB in preparing its financial statements for 2010, in accordance with the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November (hereinafter "the Spanish National Chart of Accounts"), were as follows:

#### **4.1 Financial assets - Categories of financial assets**

##### **4.1.1 Held-to-maturity investments:**

This category may include debt securities with fixed maturity and fixed or determinable payments that are traded in an active market and which the FROB has the positive intention and ability to hold to the date of maturity.

##### *Initial recognition -*

Held-to-maturity investments are initially recognised at fair value which, unless there is evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

##### *Subsequent measurement -*

Held-to-maturity investments are measured at amortised cost. The accrued interest is recognised in the income statement using the effective interest method.

Any impairment losses on these assets are recognised as described in Note 4.3.

##### **4.1.2 Available-for-sale financial assets:**

This category may include any financial assets that have not been classified in any other financial asset category envisaged in the Spanish National Chart of Accounts.

##### *Initial recognition -*

Available-for-sale financial assets are initially recognised at fair value which, unless there is evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

##### *Subsequent measurement -*

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the net profit or loss for the year. In this regard, (permanent) impairment is deemed to exist if the market value of the asset has fallen by more than 40%, or if a situation of on-going loss has arisen over a period of 18 months without the value having recovered.

However, the accrued interest and dividends relating to these assets are recognised in the income statement by nature.

Any impairment losses on these assets are recognised as described in Note 4.3.

##### **4.1.3 Loans and receivables:**

This category of financial instruments includes debt instruments arising from the provision of services and those that, while not arising from this type of activity, represent receivables with determined or determinable amounts that are

not traded in an active market.

Loans and receivables are recognised in the balance sheet at 31 December 2010 under, inter alia, "Non-Current Financial Assets - Loans and Receivables" and "Current Financial Assets - Loans and Receivables".

#### Initial recognition -

Generally speaking, loans and receivables are initially recognised at fair value which, unless there is evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus any directly attributable transaction costs.

However, certain items established under applicable legislation that are included in this financial asset category and mature within one year are initially recognised at their nominal value when the effect of not discounting the cash flows is not significant.

#### Subsequent measurement -

The assets included in this category are measured at amortised cost. The interest earned on these assets is recognised in the income statement using the effective interest method.

However, the financial assets included in this financial asset category which, as described above, are initially recognised at their nominal value, continue to be measured at this value after initial recognition.

Any impairment losses on these assets are recognised as described in Note 4.3.

### 4.2 Cash

The cash balances, all of which are denominated in euros, are measured at their nominal value in these financial statements.

The interest earned on the bank accounts held by the FROB is calculated using the effective interest method on the basis of their contractual rates and are recognised under "Finance Income - Bank Interest" in the income statement.

### 4.3 Impairment on financial assets

The FROB monitors its financial assets in order to have information enabling it to identify evidence of their possible impairment and, where necessary, to perform the related impairment test. Impairment is considered to exist when the recoverable amount of a financial asset is lower than its carrying amount. When this occurs, the impairment (difference between the recoverable value and the carrying amount of said asset) is recognised in the income statement.

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the FROB may initiate to seek collection until its contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

### 4.4 Financial liabilities - Accounts payable

The financial liabilities assumed by the FROB are classified and measured in the "Accounts Payable" category as defined by applicable legislation.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost (see Note 4.10).

### 4.5 Derecognition of financial instruments

A financial asset is derecognised when either of the following conditions is met:

1. The contractual rights on the cash flows they generate have been extinguished; or

2. The contractual rights on the cash flows of the financial asset are granted and the risks and rewards of ownership of the asset are substantially transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred.

Financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are re-acquired by the FROB, with the intention either to resell them or to cancel them.

#### **4.6 Tax regime**

Royal Decree-Law establishes that, for tax purposes, the FROB will be treated in the same way as the Credit Institution Deposit Guarantee Funds. In this regard, since Article 9.1.c) of Legislative Royal Decree 4/2004, of 5 March, establishes an exemption for Deposit Guarantee Funds from income tax, the FROB is also exempt from said tax.

Furthermore, Article 2.b) of Royal Decree 4/1980, of 28 March, establishes that the Deposit Guarantee Funds and, therefore, the FROB, are exempt from any indirect taxes that might be payable as a result of their incorporation, operation and the actions or transactions that they may carry out in the performance of their purpose. The exemption is also applied to transactions on which indirect tax is payable whose amounts must be paid to the FROB by virtue of the provisions regulating it.


#### **4.7 Recognition of income and expenses**

Income and expenses are recognised in the income statement on an accrual basis, i.e. when the actual flow of the related acquisition or provision of goods and services occurs, regardless of when the resulting monetary flow arises.

In this regard, the accrued finance income and expense arising from the deposit held at the Bank of Spain from acquired preference shares, debt securities and issued debentures (see Notes 5, 6 and 7, respectively) are recognised in the income statement using the effective interest method (see Note 4.10).

#### **4.8 Provisions and contingencies**

In preparing its financial statements, the FROB distinguishes between:

- 
- a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations. These obligations may arise from a legal provision, a contractual requirement of an implicit or constructive obligation assumed by the Entity.
  - b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Entity's control.

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Unless they are considered to be remote, contingent liabilities are not recognised in the financial statements, but rather are disclosed.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Entity is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

#### 4.9 Related party transactions

For the purposes of these financial statements, "related parties" are considered to be the Bank of Spain, the Deposit Guarantee Fund of Banking Establishments, Savings Banks and Credit Cooperatives, the key management personnel of the FROB, and the Management Company of the Credit Institutions' Deposit Guarantee Fund (see Notes 1 and 14).

The transactions between the FROB and its related parties are accounted for in accordance with the general rules, i.e. at fair value.


Note 14 contains information on the balances recognised in these financial statements corresponding to related parties.

#### 4.10 Definition of fair value and amortised cost

For the purposes of the preparation of these financial statements, fair value is understood to be the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair value is determined without any deduction for transaction costs that may be incurred on disposal. Fair value is not under any circumstances the amount an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Fair value is calculated by reference to a reliable market value, where one exists, which is understood to be a price quoted in an active market, in which the goods or services exchanged are homogeneous, buyers and sellers may be found at practically any time for a certain good or service and the prices are known and easily accessible to the public, and reflect actual, current and regular market transactions.

In contrast, if no active market exists, fair value is estimated by applying generally accepted assessment models and techniques such as references to recent transactions, references to substantially similar financial instruments and generally accepted cash flow discount methods, in all cases using techniques that have demonstrated that they provide the most realistic fair value estimates and maximising at all times the use of data obtained in the market.



Amortised cost of a financial instrument is understood to be the amount at which it was initially recognised, less any principal repayments and interest payments made, plus or minus, as appropriate, the portion allocated to the income statement, calculated using the effective interest method, of its accrued interest and of the difference between the initial cost and the maturity amount of the instrument. In the case of financial assets, amortised cost also includes any impairment losses recognised thereon.

The effective interest rate is the discount rate that matches the initial value of a financial instrument to the present value of the estimated cash flows during its expected life based on its contractual conditions and excluding future credit losses. This calculation includes any loan arrangement fees, where appropriate, charged prior to granting the loan.

#### 5. Cash and cash equivalents - Cash

At 31 December 2010, "Cash and Cash Equivalents - Cash" in the accompanying balance sheet, amounting to EUR 3,291,691 thousand (31 December 2009: EUR 12,012,928 thousand) related basically to the current account held by the FROB at the Bank of Spain (see Note 14).

This deposit earns interest equal to the arithmetic mean of the minimum rate pre-established for each weekly auction of the European Central Bank (main financing transactions) published in the period relating to the settlement of the account, less 25 basis points.

In 2010 the interest earned on the bank deposits held by the FROB amounted to EUR 80,677 thousand (the period from 14 July 2009 to 31 December 2009: EUR 20,574 thousand), which was recognised under "Finance Income - Bank Interest" in the accompanying income statement (see Note 14).

## **6. Financial assets**

### **6.1 Detail of financial assets**

The detail of financial assets owned by the FROB at 31 December 2010, classified in accordance with the breakdown required by applicable legislation, without presenting comparative information for 2009 since in that year that were no financial assets classified in this category other than cash, is as follows:

**2010**

Class  Category	Thousands of Euros						
	Non-Current Financial Instruments			Current Financial Instruments			Total
	Equity Instruments	Debt Instruments	Loans, Derivatives and Other	Equity Instruments	Debt Instruments	Loans, Derivatives and Other	
Loans and receivables (Notes 6.2 and 6.3)	-	8,697,000	9,435	-	64,550	233	8,771,218
<b>Total</b>	-	<b>8,697,000</b>	<b>9,435</b>	-	<b>64,550</b>	<b>233</b>	<b>8,771,218</b>





## 6.2. Non-current financial assets - Debt instruments classified as "loans and receivables"

The detail of the preference shares convertible into non-voting equity units or shares, as appropriate, acquired by the FROB in accordance with the provisions of Article 9 of Royal Decree 9/2009 (see Note 1), which comprise "Non-Current Financial Assets - Debt Instruments" in the balance sheet at 31 December 2010 is as follows:

*Data in thousands of euros*

Issuing Entity	Payment Date	Amount Paid	Interest Rate (1)	Interest Accrued (Note 6.3)	Repurchase Date (2)	Guarantees
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	28/07/10	1,250,000	7.75%	41,864	5 years	Unlimited liability of the issuer
Caixa d'Estalvis Unió de Caixes de Manlleu, Sabadell i Terrassa ("UNIMM")	28/07/10	380,000	7.75%	12,621	5 years	Unlimited liability of the issuer
Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros y Monte de Piedad	29/10/10	525,000	7.75%	7,016	5 years	Unlimited liability of the issuer
Caixa de Aforros de Galicia, Vigo, Ourense e Pontevedra	30/12/10	1,162,000	7.75%	245	5 years	Unlimited liability of the issuer
Banco Financiero y de Ahorros, S.A. (3)	28/12/10	4,465,000	7.75%	2,804	5 years	Unlimited liability of Banco Financiero y de Ahorros, S.A. and severally guaranteed by each of the savings banks
Banco Mare Nostrum, S.A. (4)	31/12/10	915,000	7.75%	-	5 years	Unlimited liability of Banco Mare Nostrum, S.A. and severally guaranteed by each of the savings banks
<b>Total</b>		<b>8,697,000</b>		<b>64,550</b>		

- (1) This will increase by 15 basis points on each anniversary of the payment date (up to, and including, the fifth year). Subsequent to the fifth year, if the FROB grants an extension to the repurchase period, the rate will increase by 100 basis points (in a maximum period of two years).
- (2) The preference shares will be repurchased from the FROB on one or more occasions as soon as it is able to do so within a maximum five-year period. Under certain circumstances, the issuer may request the FROB for an extension of said term of up to a maximum of two years, which must be authorised by the Bank of Spain. Subsequent to the fifth year, or the seventh year in the event of an extension, where the preference shares have not been repurchased by their issuer, the FROB will have six months in which to request the conversion of the preference shares into voting equity units or shares. Similarly, the FROB may request at any time the conversion into the issuer's voting equity units or shares if the Bank of Spain considers that the repurchase of the preference shares within the time limits set for these cases is unlikely. The acquisition or subscription price will be set, where appropriate, in accordance with the economic value of the credit institution.
- (3) Parent of the group comprising Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), Caixa d'Estalvis Laietana, Caja de Ahorros y Monte de Piedad de Ávila, Caja de Ahorros y Monte de Piedad de Segovia, Caja Insular de Ahorros de Canarias and Caja de Ahorros de La Rioja.
- (4) Parent of the Group comprising Caja General de Ahorros de Granada, Caja de Ahorros de Murcia, la Caixa d'Estalvis del Penedès and Caja de Ahorros y Monte de Piedad de Baleares ("SA NOSTRA").

In addition to the convertible preference shares, the Governing Committee of the FROB, at its meeting of 22 December 2010, resolved to support the integration plan of Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (CajaSol) in the IPS comprising Caja de Ahorros y Monte de Piedad de Navarra, Caja de Ahorros Municipal de Burgos, Caja General de Ahorros de Canarias and the Banca Cívica bank (Banca Cívica Group). The authorised amount of the support in the form of the subscription of convertible preference shares was EUR 977 million. The integration was completed at the beginning of January 2011 and the preference shares were subscribed and paid prior to the authorisation for issue of these financial statements (see Note 16).

Furthermore, on 30 December 2010, the FROB subscribed the preference shares convertible into shares issued by Banco Base, S.A. (Parent of the group comprising Caja de Ahorros del Mediterráneo (CAM), Caja de Ahorros de Asturias, Caja de Ahorros y Monte de Piedad de Extremadura and Caja de Ahorros de Santander y Cantabria) for a nominal amount of EUR 1,493 million, payment of which was postponed until the fulfilment of certain conditions precedent. Prior to the authorisation for issue of these financial statements, certain savings banks participating in this project rejected the integration and, accordingly, it is foreseeable that the payment may not be made (see Note 16).

As a general rule, the subscription by the FROB of these participating shares convertible into voting equity units or shares is subject to compliance by the recipient entities of a series of commitments to prevent distortions of competition. If any of these commitments is not met, the rate of remuneration of the preference shares is increased by 200 basis points.

### 6.3. Current financial assets - Debt instruments classified as "loans and receivables"

At 31 December 2010, the entire balance of the debt instruments classified as current "loans and receivables" related to interest earned on the preference shares acquired by the FROB in 2010, classified under "Loans and Receivables" (see Note 6.2).

At 31 December 2010 and 2009, the financial assets recognised on the asset side of the FROB's balance sheet were not impaired and no impairment losses were recognised in those years.

## 7. Financial liabilities

### 7.1 Detail of financial liabilities

The detail, as required by applicable legislation, of the financial liabilities assumed by the FROB at 31 December 2010 and 2009 is as follows:

#### 2010

Category \ Class	Thousands of Euros		
	Non-Current Financial Instruments	Current Financial Instruments	
	Debt Instruments and Other Marketable Securities (Note 7.1.1)	Bank Borrowings (Note 7.1.3)	Debt Instruments and Other Marketable Securities (Note 7.1.2)
Accounts payable	2,993,478	4,516	10,219
	<b>2,993,478</b>	<b>4,516</b>	<b>10,219</b>

#### 2009

Category \ Class	Thousands of Euros		
	Non-Current Financial Instruments	Current Financial Instruments	
	Debt Instruments and Other Marketable Securities (Note 7.1.1)	Bank Borrowings	Debt Instruments and Other Marketable Securities (Note 7.1.2)
Accounts payable	2,991,953	-	10,219
	<b>2,991,953</b>	-	<b>10,219</b>

### 7.1.1. Non-current payables - Debt instruments and other marketable securities

In 2009 the Governing Committee of the FROB resolved to launch the issue of 60,000 non-convertible bonds guaranteed by the central government of EUR 50,000 par value each and a discount of 0.119% of said par value. This issue was launched on 19 November 2009.

The bonds mature in 2014 and their holders are entitled to receive remuneration consisting of an annual fixed interest rate of 3% on 19 November each year until maturity.

The finance costs accrued on these bonds in 2010 amounted to EUR 91,551 thousand (the period from their issue to 31 December 2009: EUR 10,394 thousand), which were recognised under "Finance Costs - Interest and Commissions" in the accompanying income statement for said period.

At 31 December 2010 and 2009, the unmatured nominal amount of this issue, EUR 3,000,000 thousand, was recognised under "Non-Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the balance sheets at those dates, net of the adjustments made as a result of using the effective interest method in order to present said issues at amortised cost. At 31 December 2010, the balance of these adjustments amounted to EUR 6,522 thousand (31 December 2009: EUR 8,047 thousand) which included, basically, the discount on the issue and the amount of the transaction costs associated with the issue of securities unearned at that date.

At 31 December 2010, the FROB's issue of non-convertible bonds had a credit rating of Aa1 from Moody's, AA from Standard & Poor's and AA+ from Fitch.

### 7.1.2. Current payables - Debt instruments and other marketable securities

"Current Payables - Debt Instruments and Other Marketable Securities" on the liability side of the accompanying balance sheet includes the earned, unpaid interest on the issue of the bonds indicated above in Note 7.1.1 amounting to EUR 10,219 thousand (31 December 2009: EUR 10,219 thousand).

### 7.1.3 Current payables - Current bank borrowings

On 21 May 2010, the Governing Committee of the FROB authorised the arrangement of a credit line in order to obtain more flexibility in its financial management while enabling it to reduce its borrowing costs without compromising its liquidity position. This financing facility consists of a syndicated loan involving 13 entities, with a EUR 3,000 million limit and a two-year term as from the arrangement date, 27 July 2010. At 31 December 2010, no amount had been drawn down on this policy.

At 31 December 2010, the balance of current bank borrowings on the liability side of the balance sheet included, inter alia, the accrued costs associated with the aforementioned credit line.

## 8. Own funds

The following table contains a summary of the changes in the items composing the FROB's "Own Funds" in 2010 and the period from 14 July 2009 to 31 December 2009:

	Thousands of Euros		
	Equity Fund	Profit (Loss) for the Year	Total
Beginning balance	-	-	-
Allocation to the Equity Fund	9,000,000	-	9,000,000
Profit for the year	-	10,327	10,327
<b>Balance at 31 December 2009</b>	<b>9,000,000</b>	<b>10,327</b>	<b>9,010,327</b>
Distribution of 2009 profit to the Equity Fund	10,327	(10,327)	-
Loss for the year	-	(314,091)	(314,091)
<b>Balance at 31 December 2010</b>	<b>9,010,327</b>	<b>(314,091)</b>	<b>8,696,236</b>

## 8.1 Equity Fund

Pursuant to Article 2 of Royal Decree-Law 9/2009, the FROB has a mixed endowment financed by the State Budget and by contributions from the Deposit Guarantee Funds of Banking Establishments, Savings Banks and Credit Cooperatives.

The detail of the contributions made to the FROB in 2009 both in cash and through the non-monetary contribution of State fixed-income securities, is as follows:

Contributing entities	Thousands of Euros		
	Cash Disbursement	Fixed-Income Securities	Total
State Budget	6,750,000	-	6,750,000
Banking Establishments' Deposit Guarantee Fund (*)	531,164	265,438	796,602
Savings Banks' Deposit Guarantee Fund (*)	847,112	423,552	1,270,664
Credit Cooperatives' Deposit Guarantee Fund (*)	121,870	60,864	182,734
	8,250,146	749,854	9,000,000

(\*) Pursuant to the provisions of Royal Decree-Law 9/2009, the amount allocated from the Deposit Guarantee Funds was distributed among the Banking Establishments' Deposit Guarantee Fund, the Savings Banks' Deposit Guarantee Fund and the Credit Cooperatives' Deposit Guarantee Fund based on the deposits held at the entities participating in each deposit guarantee fund at 2008 year-end as a percentage of all the deposits at credit institutions at that date.

Furthermore, in accordance with Article 2 of Royal Decree-Law 9/2009, revenue of any kind generated by the FROB's assets is included in its endowment and any expenses generated by management of the assets are met by making a charge to its endowment. Accordingly, the profit generated in 2010 amounting to EUR 10,327 thousand was transferred to the FROB's Equity Fund in 2010 and, as a result, the Equity Fund amounted to EUR 9,010,327 thousand (2009: EUR 9,000,000 thousand).

## 9. Information on the nature and level of risk of financial instruments

A detail of the FROB's main risk factors associated with financial instruments and the policies adopted to manage them is as follows.

### Liquidity risk

Liquidity risk is defined as the risk that the FROB might not have sufficient funds to meet its debt repayments at their maturity dates.

At 31 December 2010, the FROB's balance of available cash exceeded that of current liabilities.

### Credit risk

Credit risk is defined as the risk assumed by the FROB that payments are not made on maturity on the financial assets it holds by its counterparties due to their insolvency.

At 31 December 2010, this risk relates basically to the existence of a series of preference shares convertible into voting equity units or shares amounting to EUR 8,697,000 thousand that were subscribed and paid by the FROB in 2010 in the context of the support provided to the various integration processes (see Note 6.2.).

### Interest rate risk

On-balance-sheet structural interest rate risk is defined as the exposure of the FROB's economic and financial position - resulting from the varying maturity and repricing dates of its balance sheet items - to adverse fluctuations in interest rates.

As indicated above in Note 7, although the bond issue launched by the FROB earns interest at a fixed rate of 3%, the preference shares and the deposits in which the amount obtained from said issues was invested earn interest of 7.75% and 0.75%, respectively at 31 December 2010. As a result, the only financial asset exposed to interest rate risk at 31 December 2010 is that held in cash.

#### Market risk

Market risk is defined as the risk that affects results or equity as a result of adverse changes in the prices of bonds and securities it owns and of its debt issues.

In view of the composition of the FROB's balance sheet at 31 December 2010 and the financial instrument categories in which its financial instruments are classified, the exposure to this risk is zero.


#### Other risks

The FROB does not hold any significant exposures to other risks associated with its financial instruments that have not been disclosed in these notes to the financial statements.

### **10. Tax matters**

#### **10.1 Current tax payables**

The detail of "Current Liabilities - Trade and Other Payables - Other Accounts Payable to Public Authorities" in the balance sheet at 31 December 2010 and 2009 is as follows:



	Thousands of Euros	
	2010	2009
Withholdings payable	149	45
Accrued social security taxes payable	8	7
<b>Total</b>	<b>157</b>	<b>52</b>

#### **10.2 Tax situation**

As indicated above, the FROB is exempt from income tax and any indirect taxes that might be payable as a result of its incorporation, operation and the actions or transactions that it may carry out in the performance of its purpose.

### **11. Accounts payable**

#### **11.1 Current payables to Group companies and associates**

At 31 December 2010, "Current Payables to Group Companies and Associates", the balance of which amounted to EUR 87 thousand at that date (31 December 2009: EUR 82 thousand), relates to the balance of the debt at that date payable to the Management Company of the Credit Institutions' Deposit Guarantee Fund for the provision of computer, administrative and legal advisory services, and for the use of shared services (see Note 1).

The accrued expenses for these services in 2010 amounted to EUR 421 thousand (the period from the incorporation of the FROB to 31 December 2009: EUR 153 thousand), (see Note 1), which were recognised under "Other Operating Expenses" in the accompanying income statement (see Note 13.2).

#### **11.2 Trade and other payables - Sundry accounts payable**

At 31 December 2010, the balance of "Trade and Other Payables - Sundry Accounts Payable", which was EUR 444 thousand (the period from 14 July 2009 to 31 December 2009: EUR 295 thousand) includes amounts payable to several creditors for services. The accrued expenses for these services in 2010 were recognised under "Other Operating Expenses" in the accompanying income statement (see Note 13.2).

## **12. Provisions and contingencies**

### **12.1 Provisions**

On 16 July 2010, as part of the restructuring process of Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur), the FROB granted an Asset Protection Scheme (APS) whereby it would cover any losses arising from CajaSur's closed asset portfolio. By virtue of the APS, the FROB will assume, up to a maximum of EUR 392,000 thousand, 90% of any potential losses that might arise from the portfolio of guaranteed assets, the nominal amount of which was EUR 5,542,518 thousand, assuming as a result the corresponding risk up to said maximum amount.

Taking into consideration the characteristics of the guaranteed portfolio and of the APS and in accordance with the estimates made, the most likely scenario is considered to be that at 15 May 2015, the maturity date of the APS, the FROB will have had to pay the maximum amount thereon. Accordingly, at 31 December 2010, the FROB recognised a provision for the present amount of this expected loss, i.e. EUR 357,772 thousand, under "Period Provisions - Asset Protection Scheme" in the 2010 income statement. Since the agreement envisages the annual partial settlement of the APS, pursuant to the provisions established therein, at 31 December 2010, the aforementioned provision was recognised for EUR 91,532 thousand under "Current Provisions" and for EUR 266,240 thousand under "Non-Current Provisions".


The APS entered into force on 1 January 2011, taking effect retrospectively from 31 May 2010, with a five-year term from said date.

### **12.2 Contingent assets**

At 31 December 2010 and 2009, the FROB did not have any contingent assets.

## **13. Income and expenses**

### **13.1 Staff costs and average headcount**

 The detail of "Staff Costs" in the income statement for 2010 and for the period from 14 July 2009 to 31 December 2009 is as follows:

	Thousands of Euros	
	2010	2009 (from 14/07 to 31/12)
Wages, salaries and similar expenses	563	206
Social security costs	93	31
<b>Total</b>	<b>656</b>	<b>237</b>

The average number of employees at the FROB in 2010 and in the period from 14 July 2009 to 31 December 2009, by professional category and gender, which does not differ significantly from the detail of the workforce at 31 December 2010 and 2009, is shown in the following table:

### **2010**

	Average Number		
	Men	Women	Total
Technical Level 1	3,67	-	3,67
Technical Level 2	-	2	2
Technical Level 3	-	1	1
<b>Total</b>	<b>3,67</b>	<b>3</b>	<b>6,67</b>

**2009** (from 14 July to 31 December)

	Average Number		
	Men	Women	Total
Technical Level 1	2,67	-	2,67
Technical Level 2	-	2	2
Technical Level 3	-	1	1
<b>Total</b>	<b>2,67</b>	<b>3</b>	<b>5,67</b>

### 13.2 Other operating expenses

The detail of "Other Operating Expenses" in the income statement for 2010 and for the period from 14 July 2009 to 31 December 2009 is as follows:

	Thousands of Euros	
	2010	2009 (from 14/07 to 31/12)
Management Company Services (Note 11.1)	421	153
Outside professional services	886	270
Governing Committee (Note 14)	142	62
Provisional directors	933	-
Bank and similar services	21	7
Other operating expenses	61	9
<b>Total</b>	<b>2.464</b>	<b>501</b>

### 13.3 Other disclosures

In 2010 the fees for financial audit and other services provided by the Entity's auditors, Deloitte, S.L., or by any firm related to the auditors by control, joint ownership or management were as follows:

Description	Thousands of Euros
Audit services	8
Other attest services	-
<b>Total audit and related services</b>	<b>8</b>
Tax advisory services	-
Other services	2
<b>Total professional services</b>	<b>10</b>

The services commissioned to the auditors of the FROB meet the independence requirements stipulated by Law 12/2012, of 30 June, amending Audit Law 19/1988, of 12 July, and they did not involve the performance of any work that is incompatible with the audit function.

#### **14. Related party transactions and balances**

The detail of the balances recognised by the FROB with related parties in these financial statements for 2010 and for the period from 14 July 2009 to 31 December 2009 is as follows (figures in thousands of euros):

##### **2010**

	Bank of Spain	Credit Institutions Deposit Guarantee Funds	Management Company of the Credit Institutions' Deposit Guarantee Fund	Governing Committee and Senior Management
<b>Assets:</b>				
Cash and cash equivalents - Cash (Note 5)	3,291,625	-	-	-
<b>Liabilities:</b>				
Current payables to Group companies and associates (Note 11.1)	-	-	87	-
<b>Income statement:</b>				
Finance income (Note 5)	80,676	-	-	-
Staff costs (Senior Management)	-	-	-	154
Other operating expenses (Notes 11.1, 13.2 and 14.2)	-	-	421	142

##### **2009**

	Bank of Spain	Credit Institutions' Deposit Guarantee Fund	Management Company of the Credit Institutions' Deposit Guarantee Fund	Governing Committee and Senior Management
<b>Assets:</b>				
Cash and cash equivalents - Cash (Note 5)	12,012,833	-	-	-
<b>Liabilities:</b>				
Current payables to Group companies and associates (Note 11.1)	-	-	82	-
<b>Income statement:</b>				
Finance income (Note 5)	20,574	-	-	-
Staff costs (Senior Management)	-	-	-	71
Other operating expenses (Notes 11.1, 13.2 and 14.2)	-	-	153	62



In 2010 the FROB recognised an expense for EUR 142 thousand (the period from 14 July 2009 to 31 December 2009: EUR 62 thousand) related to attendance fees and other items relating to the Governing Committee (see Note 13.2).

In 2010 the FROB had granted no advances or loans and had acquired no pension, life insurance or guarantee obligations to any of the members of its Governing Committee.

#### **15. Fair value of financial instruments**

Due to the characteristics of the FROB's financial assets and liabilities at 31 December 2010, their fair value, estimated using measurement techniques that consider market inputs, does not differ significantly from their carrying amount at that date.

#### **16. Events after the reporting period**

On 11 January 2011, in accordance with the terms and conditions established in the Support Measures Protocol for the Restructuring of CajaSur, the FROB advanced to BBK Bank CajaSur, the transferee of the assets and liabilities of the now-defunct CajaSur, the amount of the APS through the arrangement of a loan (the "APS loan") for EUR 392 million.

On 3 February 2011, the FROB launched an issue of 30,000 three-year bonds guaranteed by the central government of EUR 100,000 par value each, at a nominal annual interest rate of 4.5% payable in arrears.

On 11 February 2011, as part of the integration process of Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (CajaSol) in the IPS comprising Caja de Ahorros y Monte de Piedad de Navarra, Caja de Ahorros Municipal de Burgos, Caja General de Ahorros de Canarias and Banca Cívica bank (Banca Cívica Group), the FROB disbursed EUR 977 million relating to the subscription of preference shares convertible into shares issued by Banca Cívica, S.A.

Following the rating downgrade of the FROB issues by Moody's credit rating agency in the early months of 2011, at the date of authorisation of these financial statements, the rating of FROB's issues according to Moody's, Fitch and Standard & Poor's was Aa2, AA+ and AA, respectively.

On 30 March 2011, the assemblies of Caja de Ahorros de Asturias, Caja de Ahorros y Monte de Piedad de Extremadura and Caja de Ahorros de Santander y Cantabria declined to continue with the spin-off of their entire financial business to Banco Base, which represented one of the conditions precedent for the IPS to enter into force and for the payment of the preference shares subscribed by the FROB. As a result of this decision, said payment will foreseeably be cancelled definitively.

In the period from the reporting date to the date on which these financial statements were authorised for issue, no other event took place having a material effect on the financial statements.

#### **17. Explanation added for translation to English**

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Entity (see Note 2.1). Certain accounting practices applied by the Entity that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

## **Fondo de Reestructuración Ordenada Bancaria**

### **Directors' report for the year ended 31 December 2010**

#### **1. CONCLUSIONS**

In 2010 substantial progress was made in the reorganisation and consolidation of the banking system, particularly in the savings bank sector, with the participation of the Fondo de Reestructuración Ordenada Bancaria (the Fund for Orderly Bank Restructuring, "the FROB"), in accordance with the functions entrusted to it by Royal Decree-Law 9/2009, of 26 June, on bank restructuring and strengthening of the capital of credit institutions ("the Royal Decree-Law"). In the course of the year, the Bank of Spain approved 13 integration processes involving 38 of the 45 savings banks in the sector. The FROB provided financial support amounting to EUR 11,167 million for 8 of these processes. All the integration processes in which the FROB intervened were carried out as required by Article 9 of the Royal Decree-Law.

Also in 2010, in accordance with Article 7 of the Royal Decree-Law, the restructuring process of Caja de Ahorros y Monte de Piedad de Córdoba (CajaSur) was carried out, in accordance with the Restructuring Plan designed by the FROB, which reached completion on the transfer en bloc of all its assets and liabilities to BBK Bank. This restructuring was aided by EUR 392 million of financing from the FROB, arranged through the granting of an asset protection scheme (APS).

The financial position of the FROB at 2010 year-end enabled it to meet its commitments to provide support in the various integration and restructuring processes approved to date by the Bank of Spain and to hold sufficient available funds to be able to cater for possible contingencies.

The FROB had a positive financial position at 31 December 2010 of EUR 8,696 million.

#### **2. ORGANISATION AND OPERATION. RELEVANT MATTERS IN 2010**

Following the progress made in 2009 in the preparatory work and processes required to enable the FROB to be in fully operational condition, at the eleven meetings held by the FROB's Governing Committee in 2010, further progress was made in these matters, noteworthy among which were the following:

- The criteria and conditions governing the FROB's activity in the integration projects of Spanish credit institutions were established, within the framework of the recapitalisation scheme approved by the European Commission on 28 January 2010. These criteria were widened and extended until 31 December 2010, to include the possibility of supporting recapitalisations of credit institutions on an individual basis, pursuant to the provisions of Article 10 of Royal Decree-Law<sup>5</sup> and in accordance with the recapitalisation framework approved by the European Commission on 23 July 2010.
- The rules governing the organisation and operation of the Audit Committee were updated to adapt them to the changes introduced by Law 12/2010, amending the Spanish Securities Market Law.
- The FROB's financial statements for 2009 (covering the period from 14 July 2009, the date of its incorporation, to 31 December 2009) were approved, for which an unqualified auditors' report was issued. These financial statements were sent to the Ministry of Economy and Finance to be submitted to the Spanish National Court of Auditors for audit.
- The criteria and conditions to be met by the entities that have received financial support from the FROB to ensure that their commercial policies are not considered aggressive were prepared.
- The 2011 budget for the FROB's operating expenses and non-financial investments was approved.

<sup>5</sup> Incorporated by Royal Decree-Law 11/2010.

### 3. FINANCIAL TRANSACTIONS

To enable the FROB to have financial instruments which provide it with more flexibility in its financial management, while enabling it to reduce its borrowing costs without compromising its liquidity position, the FROB's Governing Committee resolved that the FROB could arrange a syndicated loan with credit institutions for a maximum of EUR 3 million.

To this end, following a competitive process in which offers were requested from Public Treasury primary dealers entities, a credit line was arranged with a EUR 3,000 million limit and a two-year term through a banking syndicate consisting of 13 Spanish and non-Spanish credit institutions. This facility is backed by the State guarantee in the terms and conditions set forth in the Ministry of Economy and Finance Order of 26 October 2009, whereby a guarantee is granted from the central government for certain economic obligations required from the FROB.

It is also important to note that on 2 December 2010, the Ministry of Economy and Finance issued an Order extending the maximum term for the arrangement of financial transactions by the FROB that may benefit from the central government guarantee until 15 December 2016.

### 4. THE FROB'S PARTICIPATION IN THE PROCESSES TO RESTRUCTURE AND STRENGTHEN THE CAPITAL OF CREDIT INSTITUTIONS

- **Integration processes**

In 2010 the FROB's Governing Committee agreed to provide financial support to eight integration processes for an overall amount of EUR 11,167 million, pursuant to the provisions of Article 9 of the Royal Decree-Law. As was required, these integration processes were given prior approval by the Executive Committee of the Bank of Spain and met the criteria established in the resolutions of the European Commission of 28 January 2010 and 23 July 2010, which approved and extended Spain's recapitalisation regime for credit institutions, and in the resolutions of the FROB's Governing Committee of 29 January 2010 and 27 July 2010, which established the criteria and conditions governing the FROB's activity in the integration projects of Spanish credit institutions.

The financial support provided by the FROB was implemented through the subscription of preference shares convertible into voting equity units / shares issued by the post-merger entity arising from each merger process or, where appropriate, the central entity of the Institutional Protection Scheme (IPS). The following table provides a detail of the processes that have been approved and their degree of completion:

**Dates and Amounts of the Support Provided by the FROB to the Integration Processes at 31/12/10**

Entities Involved	Structure	FROB Approval	Status	Support Amount (EUR Million)	Disbursement Date
Caixa d'Estalvis Comarcal de Manlleu, Caixa Sabadell and Caixa Terrassa	Merger	25/03/10	Subscribed and paid	380	28/07/10
Caixa d'Estalvis de Catalunya, Caixa de Tarragona and Caixa d'Estalvis de	Merger	25/03/10	Subscribed and paid	1,250	28/07/10
Caja España and Caja Duero	Merger	25/03/10	Subscribed and paid	525	29/10/10
Caixa Galicia and CaixaNova	Merger	29/06/10	Subscribed and paid	1,162	30/12/10
<b>BANCO FINANCIERO Y DE AHORROS</b>					
Caja Madrid, Bancaja, Caja Ávila, Caja Segovia, Caja Insular de Canarias, Caixa Laietana and Caja Rioja	IPS	29/06/10	Subscribed and paid	4,465	28/12/10
<b>BANCO MARE NOSTRUM</b>					
Caja Murcia, Caja Granada, Caixa Penedés and Sa Nostra	IPS	29/06/10	Subscribed and paid	915	31/12/10
<b>BANCO BASE</b>					
Caja de Ahorros del Mediterraneo (CAM), CajaAstur, Caja Cantabria and Caja Extremadura	IPS	29/06/10	Subscribed and pending approval by Assemblies of the transfer of the financial activity to the bank*	1,493	Before 31/05/11*
<b>BANCA CÍVICA</b>					
Caja Navarra, CajaSol (including Guadalajara), Caja General de Canarias and Caja Municipal de Burgos	IPS	22/12/10	Subscribed and paid in early 2011	977	11/02/11**
<b>Total integration processes</b>				<b>11,167</b>	

\* Lastly, on 30/03/11, the assemblies of Cajastur, Caja Cantabria and Caja Extremadura rejected the transfer of their financial activity to Banco Base and, accordingly, the issue of preference shares will foreseeably not be paid and will not take effect.

\*\* As foreseen, the payment for the preference shares issued by Banca Cívica was completed on 11/02/11.

Notification of the integration processes was submitted to the Directorate-General of the European Commission, which confirmed in all cases its non-objection to the processes, for the purposes of applying the recapitalisation scheme it approved on 28 January 2010 and prolonged and extended on 23 July. Also, pursuant to the provisions of Article 9.2 of the Royal Decree-Law, the corresponding economic reports were submitted to the Ministry of Economy and Finance, which did not express opposition within the deadlines provided under current legislation.

• **Restructuring processes**

On 21 May 2010, with regard to the restructuring processes, the Bank of Spain, as provided for in Article 7 of the Royal Decree-Law, resolved that the ordered restructuring of CajaSur was proper and, as a result, it provisionally replaced its governing body and designated the FROB as provisional administrator of this entity. In turn, the FROB's Governing Committee appointed the persons to exercise on its behalf the provisional administration of CajaSur and resolved to provide the entity with temporary financial support<sup>6</sup> consisting of the subscription of voting equity units issued by CajaSur amounting to EUR 800 million and of the provision to the entity of a credit line up to a maximum of EUR 1,500 million. This credit line has not been drawn down at any time.

Also, pursuant to Article 7 of Royal Decree-Law 9/2009, the FROB prepared a report on the entity's equity position and viability and a Restructuring Plan that enabled CajaSur to overcome the difficult situation that it was undergoing.

<sup>6</sup> This rescue aid was reported to the European Commission which, on 23 May 2010, notified that it was temporarily compatible with the internal market.


To this end, the FROB carried out a competitive, transparent, objective, unconditional and non-discriminatory procedure to select an offer for acquiring CajaSur's business, thereby complying with the rules established by the European Commission and ensuring maximum efficiency in the use of the public resources that may possibly be committed.

In accordance with the aforementioned procedure, at its meeting of 15 July 2010, the FROB's Governing Committee resolved that the binding offer of the competitive procedure that ensured a most efficient use of public resources was that presented by BILBAO BIZKAIA KUTXA (BBK) and, as a result, it resolved to submit for approval by the Bank of Spain the CajaSur Restructuring Plan, which included the transfer en bloc of its assets and liabilities to BBK. The BBK offer envisaged the provision of financial support by the FROB through the granting of an Asset Protection Scheme (APS) for EUR 392 million and the advance of this amount through a loan, in accordance with the scheme and conditions described above.

The legal formalisation of the transfer of CajaSur's business to BBK Bank and the granting of the APS were completed on 29 December 2010 and took effect on 1 January 2011. On the same date, the voting equity units were redeemed, whereupon the FROB was repaid the EUR 800 million initially invested, and the credit line for EUR 1,500 million was cancelled. The transfer en bloc of the assets and liabilities gave rise to the legal dissolution of CajaSur.

## **5. EVENTS AFTER THE BALANCE SHEET DATE AND OUTLOOK FOR 2011**

The most significant events that took place in the period from the balance sheet date to the date on which these financial statements were authorised for issue were as follows:

- 
- On 11 January 2011, in accordance with the terms and conditions established in the Support Measures Protocol for the Restructuring of CajaSur, the FROB disbursed to BBK Bank CajaSur, the transferee of the assets and liabilities of the now-defunct CajaSur, the APS loan amounting to EUR 392 million.
  - On 3 February 2011, the FROB launched an issue of 30,000 three-year bonds guaranteed by the central government, for a nominal amount of EUR 3,000 million at a nominal annual interest rate of 4.5% payable in arrears.
  - On 11 February 2011, the FROB disbursed EUR 977 million relating to the subscription of preference shares convertible into shares issued by Banca Cívica, S.A., as part of the integration process of Monte de Piedad y Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (Cajasol) in the IPS comprising Caja de Ahorros y Monte de Piedad de Navarra, Caja de Ahorros Municipal de Burgos, Caja General de Ahorros de Canarias and Banca Cívica bank (Banca Cívica Group).
  - On 18 February 2011, Royal Decree-Law 2/2011 was published, for reinforcing the financial system, which, inter alia, amends certain aspects of the FROB's organisation and assigns it new functions.
  - Moody's credit rating agency downgraded the Kingdom of Spain's rating and, as a result, that of the FROB issues. Accordingly, at the date of authorisation of these financial statements, the rating of FROB's issues according to Moody's, Fitch and Standard & Poor's was Aa2, AA+ and AA, respectively.
  - On 30 March 2011, the assemblies of Caja de Ahorros de Asturias, Caja de Ahorros y Monte de Piedad de Extremadura and Caja de Ahorros de Santander y Cantabria declined to continue with the spin-off of their entire financial business to Banco Base, which represented one of the conditions precedent for the IPS to enter into force and for the payment of the preference shares subscribed by the FROB. As a result of this decision, said payment will foreseeably be cancelled definitively.

With regard to the outlook for 2011, the activity in the coming year will be affected by the amendments introduced to Royal Decree-Law 9/2009 by Royal Decree-Law 2/2011 which, inter alia, assigns the FROB the function of helping to enable the entities to reach the new capital requirements. In this regard, since it is foreseeable that not all the entities will be able to raise sufficient capital in the markets, the Royal Decree-Law

amends the FROB's legal regime in order that it may provide support through the acquisition of ordinary shares, at market rates, of entities that do not meet the capital requirements and that request support, either immediately or after having gone to market and failing to raise all the necessary resources required by the new legislation. These new requirements entered into force on 10 March 2011. At the date of authorisation for issue of these financial statements there was still uncertainty regarding the definitive amounts that the FROB must contribute in compliance with this new function.

## **6. OTHER DISCLOSURES**

The FROB did not perform any research and development activities in 2010.

Lastly, the Equity Fund of the Entity does not comprise shares purchasable by the FROB.

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## Fondo de Reestructuración Ordenada Bancaria

The undersigned, Director General of the Fondo de Reestructuración Ordenada Bancaria, authorises for issue on 10 May 2011 these financial statements of the Fondo de Reestructuración Ordenada Bancaria for the year ended 31 December 2010 and the Directors' Report for 2010, which are printed on the accompanying 29 pages, duly countersigned by me for the purpose of their identification, and which will be submitted for approval by the Governing Committee.

A handwritten signature in black ink, appearing to be 'J. Atienza'.

Julián Atienza Díaz

Director General of the Fondo de Reestructuración Ordenada Bancaria